



CURRENCY

Committee on Financial Services

Michael G. Oxley, Chairman

For Immediate Release:

Contact: Peggy Peterson at 226-0471

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Oxley Requests Study of Financial Market's Recovery

Chairman of the House Financial Services Committee Michael G. Oxley (OH) called on the General Accounting Office (GAO) today to examine the affects of the recent terrorist attacks on the nation's financial institutions and markets.

Text of the letter follows:

The Honorable David M. Walker
Comptroller General
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Walker:

The attack on the World Trade Center of September 11th had devastating human and physical consequences for our financial markets and institutions. The World Trade Center and surrounding buildings housed hundreds of investment banks, commercial banks, broker-dealers, and investment advisors and managers, as well as securities, futures, and options exchanges. It is a tribute to the strength and resiliency of our financial institutions and markets that they have been able to return to operation so quickly, in spite of the horrendous loss of life and physical damage to lower Manhattan. At the same time, we believe there is much that can be learned from the efforts of our financial institutions to recover from the effects of the attack.

The ability of the financial institutions and markets affected by the attack to resume operations appears to have varied greatly. The Federal Reserve System was able to keep the payment system open throughout the crisis, in spite of the severe physical and

operational challenges faced by the Federal Reserve Bank of New York and commercial banks located in lower Manhattan. The over-the-counter bond markets were able to reopen within 48 hours of the attack, but only on the basis of significantly delayed settlement in some of those markets. Reopening of the equity markets, both electronic and floor-traded, was delayed until the Monday following the attack, and these markets were able to reopen with regular settlement. The futures exchanges located in the World Trade Center or the surrounding area also experienced significant delays prior to the resumption of partial or full trading.

Some institutions and market participants with significant operations in or near the World Trade Center were able to transition smoothly to back-up facilities at other locations. Others, however, experienced serious difficulties, in some cases because back-up facilities located near the World Trade Center were disabled. In addition, the destruction of computer and communications systems posed a challenge to the re-establishment of communications among many market participants, in some cases severely hampering the movement of payments and outstanding market settlements.

The speed with which the financial exchanges were able to reopen varied, as well. While Nasdaq, the major electronic communications networks, and regional exchanges outside of New York indicated that they were prepared to reopen the week of the attack, the reopenings of the American Stock Exchange and the New York Stock Exchange were hampered by lack of access to their trading floors and, in the case of the American Stock Exchange, damage to its trading floor. These obstacles delayed the reopening of the equities markets for four business days, the longest hiatus in the operation of the U.S. equities markets since World War II. The American Stock Exchange was only able to commence operations when the equities markets opened on Monday, September 17th, by moving its equities trading operations to the floor of the NYSE and its options activities to the floor of the Philadelphia Stock Exchange. Some affected futures exchanges were able to reopen using electronic systems rather than trading floors, but others took longer to reopen, even where redundant trading facilities were available.

In order to fully understand the factors that affected the ability of our financial institutions to recover from the effects of the attack, we request that you monitor the recovery process and report to us on its implications for the U.S. financial markets and their participants. In particular, we would like you address the following issues:

1. Disaster planning - Evaluate the efficacy, success, and lapses in the disaster plans of financial institutions, self-regulatory organizations, ECNs, and financial regulators and provide recommendations on how these entities' disaster planning could be improved.
2. Computer systems - Evaluate the extent to which financial institutions affected by the attack had back-up computer systems available and were able to access and use those facilities. Evaluate the extent to which firms had both their primary and back-up facilities located in the vicinity of the

World Trade Center, and the effect of this on the recovery of those firms when both systems were damaged or inaccessible.

3. Communications systems - Determine the extent to which the difficulties faced by some firms in restoring communications resulted from problems with their own systems or damage to phone lines and communication systems outside of their control. In this regard, evaluate (a) the extent to which the disaster plans described under item 1 above relied on or assumed undisrupted services of telecommunications providers; (b) the effect of telecommunications failures on the financial markets and their participants; (c) the efficacy, success, and lapses in the disaster plans of telecommunications providers themselves, to the extent that such plans had an effect on the recovery efforts of financial institutions and the financial markets; and (d) the utility and feasibility of creating a telecommunications back-up system dedicated to the financial markets to avert a similar disruption to the financial markets in the future.

4. Physical access - Determine the extent to which lack of physical access to the trading floors of the exchanges and/or damage to such floors was a factor in delaying reopening of the equity and futures markets after the attack. To the extent that lack of access to trading floors was a significant factor, evaluate the dependence of the U.S. equities markets on any particular market or markets. In this regard, evaluate the feasibility of opening the equities and futures markets, notwithstanding the inability of any particular market or exchange to open, by relying on alternative markets, facilities, and systems, including ECNs and regional exchanges. Please include in this analysis an examination of the implications to the markets and investors of any cooperative agreements that different markets may have entered into in response to the September 11 attack. In addition, evaluate the utility, costs and benefits of requiring redundant physical trading facilities or other mechanisms, such as alternative electronic trading systems to speed reopening following a disaster.

5. Payment systems - Analyze the factors that enabled the Federal Reserve to maintain the availability of its payment facilities and the factors that other financial institutions might look to improve their own disaster planning.

Please provide us with your preliminary findings no later than December 10, 2001.

Thank you for your cooperation in this matter.

Yours Truly,

(SIGNED)

Michael Oxley

Chairman

Committee on Financial Services

(SIGNED)

John J. LaFalce

Ranking Member

Committee on Financial Services

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